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1 RECORD OF ORAL HEARING
2
3 UNITED STATES PATENT AND TRADEMARK OFFICE
4

5
6 BEFORE THE BOARD OF PATENT APPEALS
7 AND INTERFERENCES
8

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10 Ex parte TOMAS LEON and LEWIS J. SPELLMAN
11

12
13 Appeal 2009-001227
14 Application 09/550,752
15 Technology Center 3600
16

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18 Oral Hearing Held: May 21, 2009
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22 Before JOHN C. MARTIN, MURRIEL E. CRAWFORD, and
23 JOSEPH A. FISCHETTI, Administrative Patent Judges
24

25
26 ON BEHALF OF THE APPELLANTS:
27

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34 The above-entitled matter came on for hearing on Thursday, May 21,
35 2009, commencing at 11:12 a.m., at the U.S. Patent and Trademark Office,
36 600 Dulany Street, 9th Floor, Alexandria, Virginia, before Kevin Carr,
37 Notary Public.
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39

1 THE CLERK: Calendar No. 61, Mr. Parker.

2 JUDGE MARTIN: Thank you. Good morning, Mr. Parker.

3 MR. PARKER: Good day, Your Honors.

4 JUDGE FISCHETTI: Good morning.

5 MR. PARKER: May it please The Court, my name is David Parker.

6 As you know from the record, I represent the Tomas Leon et al. and S&E
7 Trans Texas, in this appeal.

8 I'd like to start off with some ancillary matters, if you don't mind.

9 The case has been around for a while, and I noticed that the record had not
10 been brought up to date on the status of related cases, and I think that's
11 particularly pertinent to this Board's consideration.

12 There were two related cases, two issued patents, that were in
13 litigation. There was a re-examination hearing. The re-examination was
14 after the Markman hearing was held.

15 The case -- during re-examination I argued that the Markman
16 construction of the claims was binding on the Examiner. The Board did not
17 agree. The claims were all found obvious over art that was of record in this
18 case, but was not relied upon by the Examiner in this case, in the case that is
19 currently on appeal.

20 It's much better art, in my opinion, than the art that is of record.

21 Both of those two re-examinations were appealed to the CAFC, and
22 the subject of that appeal was whether the PTO was bound by prior
23 Markman, rendered by a district court.

1 And on collateral estoppel basis, the federal circuit determined that the
2 PTO was not bound, because it was not a party to the litigation.

3 Now if I may approach the bench, I'd like to hand the documents that
4 I made of record yesterday.

5 JUDGE MARTIN: All right.

6 MR. PARKER: You may not need them or want them, but I've got
7 them here.

8 JUDGE MARTIN: Okay. Thanks.

9 MR. PARKER: And for the record, I've just handed to the Board
10 copies of the decision by the previous board of appeals, which were two
11 separate re-examinations that were consolidated for appeal, as well as the
12 decision by the CAFC.

13 I believe that there is an indication -- and the question before the
14 CAFC of course was whether the Markman decision was binding. But the
15 Markman decision was relevant because the Markman decision determined
16 that the rate of inflation had to be directly adjusted, rather than some
17 stepwise adjustment of the principal involved of the accrual account
18 involved in that case.

19 The implication I read from the Federal Circuit opinion is that the case
20 might have gone the other way, had we amended the claims to specifically
21 put the language in that we were arguing was found necessarily in the claims
22 in the Markman hearing.

1 So with that behind us, in this current case, frankly, Your Honors, I
2 don't think that the right art is of record. I don't think that the case has been
3 fully -- certainly the *Bilski* decision has been handed down more recently.

4 I'm here -- I think the record is pretty clear, and our arguments are
5 pretty clear in the brief -- I'm here primarily to suggest to this Board that the
6 case needs to be remanded. Unless, of course, you affirm the rejection.

7 But I think the prior art is not very good. The Youden reference is
8 frankly just a calculator that one might use to adjudge the value of a
9 financial instrument at any given time; but it certainly in no way teaches or
10 suggests what the claimed invention --

11 If I may just briefly review the three principal claims that are argued
12 separately. There's Claim 34. All three of the claims of course are to
13 financial instruments that in some specific ways have adjustments in them,
14 according to rates of inflation.

15 JUDGE MARTIN: Excuse me, counselor. Before you get into the
16 details of the claims, can we hear your thoughts on what the term, "financial
17 instrument" means in this claim?

18 MR. PARKER: (Laughing) Your Honor, well, I'm told that that is a
19 term of art, Your Honor. And on the plane last night I looked for a good
20 definition of the specification. The term is used throughout the
21 specification, but it's not specifically defined, that I can find.

22 JUDGE MARTIN: Right but --

23 MR. PARKER: My understanding of the term is that it is an
24 obligation between a financial institution and a person or between two

1 financial institutions that determine the obligations of the party with respect
2 to loans and exchanges of money.

3 JUDGE MARTIN: Okay.

4 MR. PARKER: Now with Claim 34, Claim 34 is what I call the
5 double-whammy claim. It's the double-whammy claim because it
6 has -- well, let me explain.

7 In Claim 34, the principal is adjusted, according to inflation. And
8 then there are periodic interest payments based on an inflation-adjusted
9 principal, and then principal paid at the end of the term.

10 Now that's a double-whammy claim, because of this. Let's assume
11 that there's a \$100 loan with a 10 percent fixed interest component, and a 10
12 percent inflation. Let's just talk about a one-year period of time.

13 At the end of one year the value that one could calculate for that -- and
14 I agree, you could probably use the Youden instrument to calculate that
15 value -- the value then would be at \$121, because you would have the 10
16 percent inflation, which is required to adjust to the principal, and so the
17 principal would then after one year be \$110.

18 And then you would have a 10 percent fixed onto that. So that would
19 be \$11, adding up to \$121.

20 Claim 38 is a single-whammy claim. Sorry for the terminology,
21 but -- and in Claim 38 the principal component is not adjusted, but there's an
22 accrual component that has a fixed and an inflation-based component of the
23 accrual component.

1 So going back to my hypothetical, after one year there would simply
2 be 10 percent inflation plus 10 percent fixed multiplied against the \$100,
3 which would be \$120. So one dollar less than you would see after Claim 34.

4 Claim 42 is similar to Claim 38, with the only difference being that
5 Claim 38 requires periodic payouts, and Claim 42 requires basically a
6 lump-sum payout at the end.

7 Your Honors, we don't see that Youden is the right reference. I think
8 that the reference is the one that was before the CAFC. That's the
9 Mukherjee reference.

10 And unless you have any questions, I would be --

11 JUDGE MARTIN: I have a few questions about the Aztec Properties
12 reference.

13 MR. PARKER: Yes, Your Honor.

14 JUDGE MARTIN: Seems to me that's pretty good, especially with
15 respect to Claim 42.

16 MR. PARKER: You don't really know. You know, first of all, the
17 Examiner cited only for a limited proposition. And the Examiner never
18 really got into the Aztec Properties reference.

19 I don't know, I can't tell whether it's a claim -- well, it's not a Claim
20 34. Because at least as far as we can tell, apparently a lump-sum payout.

21 JUDGE MARTIN: Okay.

22 MR. PARKER: It's not a Claim 38, because as we know from Aztec
23 Properties, the principal was adjusted in Aztec Properties.

1 Excuse me, I'm getting that confused. Let me look at my claims
2 again.

3 JUDGE MARTIN: That's all right.

4 MR. PARKER: You know where I'm headed.

5 But I agree, I agree. Then I would agree that one of these claims -- we
6 don't know which one, because there's not quite enough information in
7 Aztec Properties for us to know.

8 In other words, in Aztec Properties, was the fixed interest applied after
9 the principal was adjusted by inflation, or before the principal was adjusted
10 by inflation?

11 I sat and tried to do calculations with these numbers that they gave.
12 The best I could come out is that they repaid the loan after one month.

13 But there aren't enough numbers there and information there for you
14 to tell whether the principal was adjusted before the fixed interest
15 component was applied or as a separate payout. Sounds like it was a
16 separate payout.

17 JUDGE MARTIN: Well, maybe that's not such a problem. They call
18 this one payout component the "indexed principal" of \$500, right?

19 MR. PARKER: That's right.

20 JUDGE MARTIN: So that's a one-time payment of that indexed
21 component. Is that correct?

22 MR. PARKER: Yes, Your Honor.

23 JUDGE MARTIN: But why isn't that also -- why can't that be
24 considered to be interest as opposed to principal?

1 MR. PARKER: Well, I mean, this Court found that it did. I mean, I
2 agree that -- it could be. But I don't think that's relevant to these claims,
3 Your Honor, because the point is, is that the question of the claims, the
4 structure of the claims is: "What component is being adjusted when?"

5 JUDGE MARTIN: Right. Claim 42 calls for a variable interest
6 component being adjusted for inflation. So we're talking about --

7 MR. PARKER: I would agree that Claim 42 is potentially a problem
8 with respect to Aztec Properties. I simply don't have enough information to
9 know whether that's exactly what's going on, because I already gave you the
10 double-whammy scenario. Now the double-whammy scenario: If the
11 principal is inflation adjusted before you apply the fixed interest, you get a
12 different number than if the principal is adjusted after the fixed interest is
13 applied.

14 JUDGE MARTIN: Right. Which implicates the other independent
15 claims --

16 MR. PARKER: Right. But there's no periodic payout there. So
17 that's my quandary. I mean, I saw that case, I mean, I read it, and I tried to
18 figure out what was going on. There was not quite enough information.

19 JUDGE MARTIN: Well, you mentioned *Bilski*, but I wouldn't mind
20 getting into Section 101 a little bit here, if you don't mind. I mean, which
21 statutory category do these claims fall in?

22 MR. PARKER: I would say the same ones that a system falls in.

23 JUDGE MARTIN: A system? You're talking about a machine? An
24 article of manufacture?

1 MR. PARKER: I would say it's a process. But it's a process that
2 defines relationships. It's a good question, but it's not, of course, before
3 us --

4 JUDGE MARTIN: Right --

5 MR. PARKER: And that's perhaps why it needs to go back down
6 again.

7 JUDGE MARTIN: I have no further questions.

8 JUDGE CRAWFORD: I don't have any questions.

9 JUDGE MARTIN: Thank you very much, counsel.

10 MR. PARKER: Could I have a question off the record, Your Honor?

11 JUDGE MARTIN: Yes.

12 (Whereupon, at 11:24 a.m., the proceedings were concluded.)